

SOUTH VALLEY TRAINING COMPANY, INC.

FINANCIAL STATEMENTS

June 30, 2006 and 2005

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WISAN, SMITH, RACKER & PRESCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

**Board of Directors
South Valley Training Company, Inc.
Sandy, Utah**

We have audited the accompanying statements of financial position of South Valley Training Company, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Valley Training Company, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006 on our consideration of South Valley Training Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Salt Lake City, Utah
November 17, 2006

Wisan Smith Racker & Prescott LLP

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

132 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
FAX (801) 328-2015
(801) 328-2011

MEMBER
UTAH ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,535	\$ 11,684
Receivables:		
Accounts receivable - net of allowance for uncollectable amounts of \$10,000 in 2006 and 2005	52,791	43,185
Contracts and grants receivable	75,560	67,969
Other receivables	3,469	3,496
Net receivables	<u>131,820</u>	<u>114,650</u>
TOTAL CURRENT ASSETS	133,355	126,334
PROPERTY AND EQUIPMENT	<u>42,726</u>	<u>54,237</u>
TOTAL ASSETS	<u>\$ 176,081</u>	<u>\$ 180,571</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 83,151	\$ 88,381
Accrued expenses	28,601	27,284
Current portion of obligation under capital lease	-	22,412
TOTAL CURRENT LIABILITIES	111,752	138,077
OBLIGATION UNDER CAPITAL LEASE	<u>85,846</u>	<u>72,110</u>
TOTAL LIABILITIES	197,598	210,187
NET ASSETS		
Unrestricted	<u>(21,517)</u>	<u>(29,616)</u>
TOTAL NET ASSETS (DEFICIT)	<u>(21,517)</u>	<u>(29,616)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 176,081</u>	<u>\$ 180,571</u>

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
REVENUES AND SUPPORT		
Support:		
Grants	\$ 665,175	\$ 670,412
Corporate and individual contributions	1,891	355
Interest income	97	12
In-kind donations	<u>20,283</u>	<u>15,535</u>
TOTAL SUPPORT	687,446	686,314
Revenue:		
Training	204,089	238,431
Production	277,207	227,888
Miscellaneous	<u>2,487</u>	<u>5,284</u>
TOTAL REVENUE	<u>483,783</u>	<u>471,603</u>
TOTAL SUPPORT AND REVENUE	1,171,229	1,157,917
EXPENSES		
Program services	1,110,020	1,067,407
Supporting services:		
Management and general	<u>53,110</u>	<u>88,988</u>
TOTAL EXPENSES	<u>1,163,130</u>	<u>1,156,395</u>
CHANGE IN NET ASSETS	8,099	1,522
Net assets (deficit) - beginning of year	<u>(29,616)</u>	<u>(31,138)</u>
Net assets (deficit) - end of year	<u>\$ (21,517)</u>	<u>\$ (29,616)</u>

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year ended June 30, 2006

	<u>Program Services</u>			<u>Support</u>	<u>Total Expenses</u>
	<u>Training</u>	<u>Industrial</u>	<u>Total Program</u>	<u>Management and General</u>	
UNRESTRICTED EXPENSES					
Salaries and wages	\$ 388,046	\$ 94,875	\$ 482,921	\$ 24,769	\$ 507,690
Employee benefits	78,495	-	78,495	5,010	83,505
Payroll taxes	45,067	7,246	52,313	2,877	55,190
Professional fees	14,948	3,754	18,702	-	18,702
Office supplies	10,044	160	10,204	418	10,622
Telephone	5,259	2,125	7,384	520	7,904
Postage	-	283	283	-	283
Rent	71,979	-	71,979	12,702	84,681
Equipment rental	28,883	8,435	37,318	893	38,211
Travel	20,580	7,993	28,573	1,314	29,887
Conferences and conventions	405	-	405	-	405
Interest expense	659	-	659	-	659
Depreciation and amortization	14,437	-	14,437	-	14,437
Miscellaneous	18,948	2,594	21,542	-	21,542
Bad debt	4,001	11,206	15,207	-	15,207
Bank charges	573	326	899	-	899
Loss on disposal	15,424	-	15,424	477	15,901
Repairs	51,161	1,627	52,788	2,693	55,481
Training and education	491	-	491	-	491
Contract labor	-	124,804	124,804	-	124,804
Insurance	32,627	-	32,627	-	32,627
Utilities	14,468	-	14,468	1,428	15,896
Production materials	-	27,673	27,673	-	27,673
Taxes and licenses	424	-	424	9	433
TOTAL FUNCTIONAL EXPENSES	\$ 816,919	\$ 293,101	\$ 1,110,020	\$ 53,110	\$ 1,163,130

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2005

	<u>Program Services</u>			<u>Support</u>	<u>Total Expenses</u>
	<u>Training</u>	<u>Industrial</u>	<u>Total Program</u>	<u>Management and General</u>	
UNRESTRICTED EXPENSES					
Salaries and wages	\$ 444,782	\$ 25,300	\$ 470,082	\$ 52,242	\$ 522,324
Employee benefits	94,541	-	94,541	10,504	105,045
Payroll taxes	37,902	7,830	45,732	5,081	50,813
Professional fees	19,460	6,597	26,057	-	26,057
Office supplies	7,927	(2,142)	5,785	1,141	6,926
Telephone	13,529	2,148	15,677	2,342	18,019
Postage	21	1,112	1,133	-	1,133
Rent	74,291	62	74,353	13,129	87,482
Equipment rental	15,592	814	16,406	-	16,406
Travel	15,790	3,605	19,395	1,238	20,633
Conferences and conventions	250	-	250	-	250
Interest expense	4,942	-	4,942	-	4,942
Depreciation and amortization	21,835	-	21,835	-	21,835
Miscellaneous	16,535	2,325	18,860	604	19,464
Bad debt	40,302	4,573	44,875	-	44,875
Bank charges	155	25	180	25	205
Dues and subscriptions	97	-	97	-	97
Repairs	45,015	1,156	46,171	-	46,171
Training and education	450	-	450	-	450
Contract labor	-	70,837	70,837	-	70,837
Insurance	42,833	-	42,833	1,504	44,337
Utilities	15,534	-	15,534	992	16,526
Production materials	-	21,602	21,602	-	21,602
Taxes and licenses	9,641	139	9,780	186	9,966
TOTAL FUNCTIONAL EXPENSES	\$ 921,424	\$ 145,983	\$ 1,067,407	\$ 88,988	\$ 1,156,395

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
STATEMENT OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,099	\$ 1,522
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	14,437	21,835
Bad debts	15,207	44,875
In-kind donations received	(20,283)	(1,535)
In-kind donations made	1,455	-
(Increase) decrease in assets:		
Accounts receivable	(9,606)	(61,595)
Contracts and grants receivable	(7,591)	319
Other assets	27	(3,416)
Increase (decrease) in liabilities:		
Accounts payable	(5,230)	(30,881)
Accrued expenses	1,317	4,955
Net cash used by operating activities	<u>(2,168)</u>	<u>(23,921)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash from disposal of equipment	2,500	-
Cash paid for purchases of equipment	<u>(1,805)</u>	<u>-</u>
Net cash flows from investing activities	695	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid for obligation under capital lease	<u>(8,676)</u>	<u>(16,030)</u>
Net cash used by financing activities	<u>(8,676)</u>	<u>(16,030)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,149)	(39,951)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,684</u>	<u>51,635</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,535</u>	<u>\$ 11,684</u>

The accompanying notes are an integral part of the financial statements.

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The South Valley Training Company, Inc. (SVTC) is a non-profit corporation, exempt from income tax under Internal Revenue Code 501(c)(3).

SVTC helps disabled persons living in the Sandy, Utah area to reach their highest level of independent living through vocational service programs.

Basis of Presentation

The financial statements are prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. SVTC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Support that is restricted by contract or donor provisions is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Temporarily restricted net assets are reclassified to unrestricted net assets in the period the restriction expires.

Equipment and Furniture

Equipment and furniture are stated at cost or, if acquired by gift, at the estimated fair market value at the date of the gift. Depreciation is provided over the estimated useful life of the related assets using the double declining method.

Capital Leases

Equipment operated under lease agreements that transfer substantially all benefits and risks associated with the assets to the Company are capitalized. An asset and liability equal to the present value of minimum payments over the term of the lease is recorded. Amortization is calculated using the double declining method over the estimated useful lives of the assets and is included in depreciation expense for financial reporting purposes.

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of temporary cash investments and trade accounts receivable.

The Company maintains its cash balances at a financial institution. At times such balances may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

As of June 30, 2006, approximately 49% of the Company's accounts receivable were from two customers. The largest customer, representing 41% of the receivables, is a division of the State of Utah, therefore this concentration of credit risk is minimal.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. No contributions have been recorded as restricted support.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Donated Materials and Services

Donated materials and equipment are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. During the fiscal years ended June 30, 2006 and 2005, SVTC received donated equipment valued at \$20,283 and \$1,535, respectively.

Donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated. During the fiscal years ended June 30, 2006 and 2005, SVTC received in-kind donations of \$0 and \$14,000, respectively.

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

Expenses are charged to program services based on direct expenditures incurred. Any expenditures not directly chargeable are allocated between the vocational program and support services based on payroll or building square foot percentages, depending on the nature of the expenditure.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain amounts in 2005 have been reclassified to conform to the 2006 presentation.

NOTE 2 - CONTRACTS AND GRANTS RECEIVABLE

At June 30, 2006 and 2005 contracts and grants receivable consisted of the following:

	<u>2006</u>	<u>2005</u>
Division of Human Services	\$ 62,535	\$ 55,654
Hillcrest Care Center	<u>13,025</u>	<u>12,315</u>
	<u>\$ 75,560</u>	<u>\$ 67,969</u>

NOTE 3 - FURNITURE AND EQUIPMENT

At June 30, 2006 and 2005, furniture and equipment consisted of the following:

	<u>2006</u>	<u>2005</u>
Cost:		
Autos and trucks	\$ 33,678	\$ 67,249
Furniture and fixtures	<u>270,701</u>	<u>266,797</u>
	304,379	334,046
Less accumulated depreciation	<u>(261,653)</u>	<u>(279,809)</u>
Net book value	<u>\$ 42,726</u>	<u>\$ 54,237</u>

Depreciation expense in 2006 amounted to \$14,437 (\$21,835 in 2005) of which \$11,638 (\$21,106 in 2005) was attributable to equipment under capital leases.

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 4 - OBLIGATION UNDER CAPITAL LEASE

SVTC's obligation under capital lease at June 30, 2006 and 2005 consisted of the following capital lease obligations:

	<u>2006</u>	<u>2005</u>
Obligations to financial institutions, interest imputed between 5.9%-12.86%, due in monthly installments of \$1,795, including interest, secured by equipment	\$ 85,846	\$ 85,846
Obligations to a financial institution, interest imputed between 6.19%-8.85%, due in monthly installments of \$3,427, including interest, secured by vehicles	-	8,676
	<u>85,846</u>	<u>94,522</u>
Less current portion of long-term liabilities	<u>-</u>	<u>(22,412)</u>
Long-term liabilities excluding current portion	<u>\$ 85,846</u>	<u>\$ 72,110</u>

The following is a schedule by years of future minimum lease payments required under capital leases.

2007	\$ 20,795
2008	20,795
2009	20,795
2010	20,795
2011	20,795
Thereafter	<u>7,188</u>
Total minimum lease payments	111,163
Less amount representing interest	<u>(25,317)</u>
Present value of minimum lease payments (including \$0 classified as current)	<u>\$ 85,846</u>

SOUTH VALLEY TRAINING COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE 4 - OBLIGATION UNDER CAPITAL LEASE (CONTINUED)

SVTC has stopped making payments on three loans over a dispute regarding the quality of the machinery originally purchased on a lease between November 2000 and July 2001. Threatened legal action by the lender never materialized after SVTC's attorney sent opposing counsel a compromise to extend the term of the notes and reduce the monthly payment from \$1,795 to \$1,350. Attorneys representing the lender never responded to the offer. Interest on the outstanding balance was accrued for the year ending June 30, 2006. As of November 17, 2006, the Organization has no plans to make any payments during the coming year.

NOTE 5 - OPERATING LEASE OBLIGATIONS

SVTC leases vehicles and its building space under operating leases. The building lease includes a five-year renewal option. Rental expense for operating leases and month-to-month leases amounted to \$103,739 and \$116,374 for the years ended June 30, 2006 and 2005, respectively. Future minimum rental payments under such leases for each of the next five years are as follows:

2007	\$	114,117
2008		112,183
2009		101,877
2010		49,409
2011		725
Thereafter		-
	\$	<u>378,311</u>

NOTE 6 - SIGNIFICANT DONOR

SVTC received approximately 57% of its public support and revenue from state contracts for fiscal year 2006 (58% for 2005). The state contracts are fee-for-service contracts with the Department of Human Services and the Utah State Office of Rehabilitation.

NOTE 7 - RELATED PARTY TRANSACTIONS

SVTC has a working relationship with the spouse of its executive director for the purpose of obtaining additional client contracts. For this service, the individual is paid up to 10% of the amount of each new contract obtained on behalf of SVTC. During 2006 and 2005 the individual was paid \$14,000 and \$1,000 respectively.

WISAN, SMITH, RACKER & PRESCOTT_{LLP}
C E R T I F I E D P U B L I C A C C O U N T A N T S

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**The Board of Directors
South Valley Training Company, Inc.**

We have audited the financial statements of South Valley Training Company, Inc. (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting – In planning and performing our audit, we considered South Valley Training Company, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect South Valley Training Company, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the management letter dated November 17, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions referenced in the management letter is a material weakness.

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

132 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
FAX (801) 328-2015
(801) 328-2011

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Compliance and Other Matters – As part of obtaining reasonable assurance about whether South Valley Training Company Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the management letter

This report is intended solely for the information of the Board of Directors, management and funding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Salt Lake City, Utah
November 17, 2006

William Smith, Partner & Principal LLP

WISAN, SMITH, RACKER & PRESCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

**The Board of Directors
South Valley Training Company, Inc.**

We have audited the financial statements of South Valley Training Company, Inc., (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 17, 2006. As part of our audit, we have audited South Valley Training Company Inc.'s compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to its major State assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2006. South Valley Training Company, Inc. received the following major assistance program from the State of Utah:

Mental Health Contracts (Department of Human Services, Division of Mental Health)

The management of South Valley Training Company, Inc. is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about South Valley Training Company, Inc.'s compliance with those requirements. We believe our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, South Valley Training Company, Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2006.

Salt Lake City, Utah
November 17, 2006

Wisan Smith Racker & Prescott LLP

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

132 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
FAX (801) 328-2015
(801) 328-2011

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WISAN, SMITH, RACKER & PRESCOTT LLP
C E R T I F I E D P U B L I C A C C O U N T A N T S

November 17, 2006

Board of Directors
South Valley Training Co.
455 West 9160 South
Sandy, UT 84070

Dear Board:

In planning and performing our audit of the financial statements of South Valley Training Company (SVTC) for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect SVTC's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

1. Currently there are no procedures documented for routine accounting functions.

Recommendation: SVTC should develop written accounting procedures to ensure routine and regular accounting procedures unique to your operations are completed and reported as required.

Response: SVTC has made significant progress in implementing the recommendations from last year's management letter. SVTC has started the process of putting the new procedures into a manual and plans to have them documented this spring.

2. SVTC has three notes for which payments are no longer being made. We talked to both attorneys regarding the matter and confirmed that no collection action is currently in progress. The non-performance on these notes will require extensive disclosure in your financial statements that could impair SVTC's ability to obtain future credit or procure state and federal funding.

Recommendation: Management should continue to seek alternatives to resolve the final standing on the debt.

Response: During the past year, SVTC attempted to contact the finance company without success. SVTC was unable to determine if the notes were sold to another company and is attempting to clarify if that was the case. SVTC has not had any direct communication regarding the collection of those notes in the past year. SVTC intends to resolve the issue in the coming year.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

332 PIERPONT AVENUE, SUITE 250
SALT LAKE CITY, UTAH 84101
FAX (801) 328-2015
(801) 328-2011

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UTAH ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

LICENSED TO PRACTICE IN UTAH, WYOMING, NEVADA, NEW MEXICO AND IDAHO



AN INDEPENDENT MEMBER OF BDO SEIDMAN ALLIANCE

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

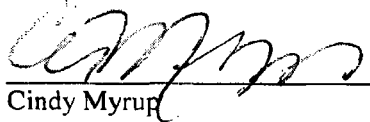
This report is intended solely for the information and use of SVTC, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Steven M. Racker, CPA

Acknowledged by:


Cindy Myrup